

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 L-03 H-01
PA-01 CIAE-00 COME-00 FRB-03 INR-10 NSAE-00
XMB-02 OPIC-03 LAB-04 SIL-01 ITC-01 /097 W
-----010533 211209Z /53

R 211137Z JUN 78
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 7410
INFO ALL EC CAPITALS

C O N F I D E N T I A L SECTION 01 OF 02 BRUSSELS 12226

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E.O.11652:GDS
TAGS: EFIN, EEC
SUBJECT: JUNE 19 MEETING OF MINISTERS OF EC SNAKE

REF: BRUSSELS 11898

1. SUMMARY: MEETING OF SNAKE PARTICIPANTS MORNING OF
JUNE 19 EC FINANCE COUNCIL FOCUSED ON POSSIBLE NEW
EUROPEAN EXCHANGE-RATE ARRANGEMENTS ON BASIS OF REPORTS
FROM CENTRAL BANK GOVERNORS AND MONETARY COMMITTEE.
GERMANS LED DISCUSSION WITH EXPOSITION OF PRINCIPLES TO
SERVE AS BASIS FOR NEW SCHEME, INCLUDING ATTENTION TO
INTERESTS OF UNITED STATES. PARTICIPANTS WERE CONCERNED
TO PRESERVE SNAKE AND FAVORED OPTION UNDER WHICH OTHERS
WOULD JOIN. PARTICIPANTS SUPPORTED USE OF EUROPEAN UNIT
OF ACCOUNT IN EUROPEAN MONETARY SETTLEMENTS, BUT WERE
SKEPTICAL OF PROPOSALS FOR BROADER ROLE FOR EUA. END SUMMARY.
2. MINISTERS AND CENTRAL BANK GOVERNORS OF PARTICIPANTS
IN EC SNAKE ARRANGEMENT MET IN LUXEMBOURG THE MORNING
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OF JUNE 19, PRIOR TO EC FINANCE COUNCIL MEETING (SEPTTEL).
MISSION OFFICER RECEIVED FOLLOWING ACCOUNT ON CONFIDENTIAL
BASIS.
3. THE MEETING BEGAN WITH A VERY BRIEF DISCUSSION OF THE
FUNCTIONING OF THE SNAKE, WHICH WAS DESCRIBED AS OPERATING
SMOOTHLY AND WITHOUT TENSIONS, AT LEAST FOR THE TIME BEING.
4. THE BULK OF THE MEETING WAS TAKEN UP WITH A DISCUSSION

OF THE POSSIBILITIES FOR INTRODUCING A SCHEME TO ACHIEVE MORE STABLE EXCHANGE RATES RELATIONSHIPS AMONG EC CURRENCIES. GOVERNOR (BELGIAN CENTRAL BANK) DE STRYCKER OPENED THE DISCUSSION WITH A SUMMARY OF THE REPORT OF THE CENTRAL BANK GOVERNORS. (MISSION HAS OBTAINED A COPY OF THIS REPORT, TO BE SUMMARIZED SEPTEL AND POUCHED TO DEPARTMENT - EUR/RPE.)

5. DE STRYCKER NOTED THAT THE GOVERNORS HAD HAD DIFFICULTY IN ARRIVING AT AN UNAMBIGUOUS DEFINITION OF EXCHANGE-RATE STABILITY. IN PARTICULAR, THE EC COULD OBTAIN GREATER STABILITY FROM AN EXCLUSIVELY EUROPEAN REFERENCE POINT, BUT THIS MIGHT MEAN INSTABILITY WITH OTHERS. EFFORTS TO OBTAIN GREATER INTRA-EUROPEAN STABILITY MIGHT BE COMBINED WITH EFFORTS TO IMPROVE STABILITY VIS-A-VIS THE DOLLAR, BUT THIS COULD NOT BE ACHIEVED BY THE EC OPERATING ALONE.

6. DE STRYCKER EMPHASIZED THAT THE CENTRAL BANK GOVERNORS HAD DISCUSSED DIFFERENT POSSIBLE MECHANISMS WHICH MIGHT BE IMPLEMENTED TO REDUCE EXCESSIVE RATE FLUCTUATIONS, BUT WERE AGREED THAT ANY LASTING EXCHANGE-RATE STABILITY MUST BE BASED ON AN UNDERLYING ECONOMIC EQUILIBRIUM ACHIEVED THROUGH APPROPRIATE ACTION ON INTERNAL ECONOMIC POLICIES. DE STRYCKER REFERRED TO DOUBTS BY SEVERAL CENTRAL BANK GOVERNORS THAT ECONOMIC PRECONDITIONS FOR TIGHTER EUROPEAN EXCHANGE-RATE ARRANGEMENTS HAD BEEN MET. THERE WAS A MAJOR RISK THAT FORMAL OBLIGATIONS WOULD LEAD TO EXCESSIVE INTERVENTION, REQUIRING TOO MUCH CREDIT SUPPORT OR USE OF

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RESERVES. ALL WERE AGREED THAT ANY COMMITMENT GOING BEYOND LOOSE, NON-OBLIGATORY ARRANGEMENTS WOULD REQUIRE COMMUNITY DECISIONS TAKEN ON A POLITICAL LEVEL, GOING BEYOND THE COMPETENCE OF THE GOVERNORS.

7. VAN YPERSELE (BELGIUM) ALSO REVIEWED THE PARALLEL REPORT OF THE MONETARY COMMITTEE. (THIS REPORT, SUMMARIZED IN REFTEL ON BASIS OF ORAL BRIEFINGS, HAS NOW BEEN OBTAINED AND IS BEING POUCHED TO DEPARTMENT - EUR/RPE.)

8. IN RESPONSE TO PERSISTENT QUESTIONING BY THE NORWEGIANS, LAHNSTEIN (GERMANY) EXPRESSED THE FOLLOWING SIX ELEMENTS OF THEIR PRELIMINARY POSITION ON NEW MONETARY ARRANGEMENTS:

(1) THE SYSTEM MUST INCLUDE ALL OTHER COMMUNITY CURRENCIES. HOWEVER, THIS DOES NOT MEAN THAT GERMANS ARE AGAINST EFFECTIVE RATE OPTIONS OR TRANSITIONAL PERIOD FOR NEW SNAKE ENTRANTS.

(2) THE SYSTEM SHOULD PROVIDE SAME DISCIPLINE FOR ALL CURRENCIES AS IN SNAKE.

(3) FIXED OBLIGATORY INTERVENTION POINTS ARE PREFERRED.

(4) STRONG LINKS BETWEEN MONETARY OBLIGATIONS AND ECONOMIC POLICY COORDINATION ARE A VERY IMPORTANT CONDI-

TION FOR PROVISION OF CREDIT ASSISTANCE IN THE SYSTEM.

(5) INTERESTS OF THE UNITED STATES MUST BE TAKEN INTO ACCOUNT. THE SCHEME MUST NOT BE ANTI-DOLLAR.

(6) USE OF EUA IN SETTLEMENTS AMONG EC COUNTRIES IS NOT EXCLUDED, BUT A WIDER ROLE AS A "TRANSACTIONS UNIT" PRESENTS MANY DIFFICULTIES.

9. WHEN NORWEGIANS PRESSED GERMANS ON THEIR PREFERENCES AMONG THE OPTIONS, LAHNSTEIN SAID IT WAS TOO EARLY TO SAY, GIVEN THAT VIEWS OF OTHER COUNTRIES HAVE YET TO BE

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PA-01 CIAE-00 COME-00 FRB-03 INR-10 NSAE-00
XMB-02 OPIC-03 LAB-04 SIL-01 ITC-01 /097 W
-----010549 211209Z /53

R 211137Z JUN 78
FM AMEMBASSY BRUSSELS
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EXPRESSED; HOWEVER MATTHOEFER (GERMAN FINANCE MINISTER) SAID THERE WAS SLIGHT PREFERENCE FOR OPTION ONE (RE-ENTRY INTO SNAKE).

10. ELABORATING ON RELATIONSHIP OF ARRANGEMENTS TO U.S. INTERESTS, MATTHOEFER REFERRED TO A RECENT BLUMENTHAL HANDELSBLATT INTERVIEW EXPRESSING U.S. INTEREST IN REDUCING BURDEN ON DOLLAR OF USE AS INTERVENTION CURRENCY IN INTRA-EUROPEAN ARRANGEMENTS, AND NOT IMPEDING WORK IN IMF OR DIMINISHING ROLE OF SDR. (THIS LAST REFERENCE BROUGHT LAUGHTER, ACCORDING TO OUR SOURCE, REFLECTING EUROPEAN SKEPTICISM OF SINCERITY OF U.S. DEVOTION TO STRENGTH OF SDR.) MATTHOEFER FELT ARRANGEMENTS UNDER

CONSIDERATION WOULD BE COMPATIBLE WITH THESE OBJECTIVES,
AND THAT BLUMENTHAL WOULD THUS SUPPORT EUROPEAN ARRANGE-
MENTS.

11. RESPONDING TO SKEPTICAL ATTITUDE OF SOME, ESPECIALLY
CENTRAL BANK GOVERNORS, LAHNSTEIN CALLED ATTENTION TO A
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CHANCELLOR SCHMIDT STATEMENT IN BUSINESS WEEK THAT HE
WOULD FIGHT FOR NEW AND BETTER MONETARY ARRANGEMENTS
GOING BEYOND THE PRESENT SNAKE.

12. ZILJSTRA (DUTCHCENTRAL BANK GOVERNOR) INDICATED
SUPPORT FOR USE OF EUA IN EUROPEAN SETTLEMENTS, BUT GREAT
SKEPTICISM ABOUT BROADER ROLE. OPTIONS NEEDED FURTHER
CAREFUL STUDY. POEHL (BUNDESBANK) EXPRESSED CONCERN
ABOUT TECHNICAL PROBLEMS THAT MIGHT BE RAISED BY "RESERVE
POOLING" OPERATIONS, SUCH AS DISPOSITION OF DOLLARS
TRANSFERRED TO THE EMCF. GEENS (BELGIAN FINANCE MINISTER)
EXPRESSED INTEREST IN POTENTIAL OF RESERVE POOLING
FOR MOBILIZING GOLD RESERVES.

13. POEHL SUMMARIZED SENSE OF MEETING THAT NEW ARRANGE-
MENTS MUST NOT HARM SNAKE, THAT THERE WAS TENDENCY TO
PREFER OPTION IN WHICH OTHERS JOINED SNAKE, AND THAT
GENERAL SUPPORT HAD BEEN GIVEN TO LAHNSTEIN'S SIX POINTS.

14. IN BACKGROUND BRIEFING AFTER MEETING ZIJLSTRA SAID
THAT UK AND FRANCE WOULD REFUSE TO ENTER SNAKE UNDER ITS
PRESENT RULES, AND THAT QUESTION WAS THEREFORE BETWEEN
PRESENT SNAKE (WITH PRESENT PARTICIPANTS) AND A MODIFIED
SNAKE WITH WIDER MARGINS. THE NETHERLANDS WOULD FAVOR
PRESENT SNAKE AS AGAINST ONE WITH WIDER MARGINS. SCHMIDT
WAS INTERESTED IN SCHEME FOR PARTIAL POOLING OF RESERVES,
BUT THIS NEEDED MORE STUDY. MORRIS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COMMITTEE MEETINGS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BRUSSE12226
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780258-0743
Format: TEL
From: BRUSSELS USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780637/aaaabfws.tel
Line Count: 209
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: c194b784-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 BRUSSELS 11898
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 18 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2271159
Secure: OPEN
Status: NATIVE
Subject: JUNE 19 MEETING OF MINISTERS OF EC SNAKE
TAGS: EFIN, EEC
To: STATE USOECD
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/c194b784-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014